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An Argument
Against
Branch Banking

by
Vernon R. Lowers.
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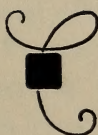
An Address

delivered by

Mr. VERNON R. LOUCKS

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BRANCH BANKING



THE banking system of any nation is not an artificial creation; it is an evolution, developing and growing out of the habits, traditions and economic life of that people.

There have been developed today in the various nations three general types of banking systems; first, the continental idea of a few banks with branches, and with one strong or overpowering institution having note issuing power, holding the reserves and rediscounting paper for other banks, acting as the fiscal agent of the Government and representing the country in its various international financial affairs. This type is found in England, France and Germany, and is the most common banking system. Second, the branch bank system developed primarily in Canada and Scotland, consisting of a few large banks, each possessing note issuing power, with many branches scattered throughout the country. Third, the banking system of the United States consisting of many independent banks, each with separate capital, individual officers and directors chosen from the leading and most successful men of the community in which the bank is located, placed at various points of vantage throughout the entire nation, and supervised through a rigid system of government examination.

EXPERIMENTS WITH CENTRAL BANKS

On two different occasions we have tried out the continental idea of a large central bank, developed primarily in monarchical

countries. The first bank of the United States, 1791 to 1811, was an American imitation of this system. It was unsuccessful. The second United States bank, from 1816 to 1836, which had twenty-five branches, was equally unsuited to our institutions and so repulsive to the people that a large part of the popularity of Andrew Jackson was due to his stand against that banking system. Owing to the opposition of Andrew Jackson, who regarded this bank as a dangerous monopoly, the charter was not renewed, and so strong was the prejudice against a bank of this character that no national bank or banks existed thereafter in this country for a period of more than a quarter of a century. So deep-rooted is the feeling of the American people against monopoly, that it is doubtful whether the national banking act, under which our national banks are still incorporated, would have been passed in the year 1863 had it not been for the extreme need of raising money to prosecute the Civil War. The creation of national banks formed a market for the sale of government bonds which, up to that time, were not readily salable. However, in order to prevent the new banking system then created from becoming monopolistic, branch banking was not permitted, and until the present time that law has been scrupulously observed. The only exception allowed by the federal statute is where a state bank having branches is consolidated with a national bank.

BRANCHES OF NATIONAL BANKS ILLEGAL

The question of whether the present national banking act prohibits branch bank-

ing has been submitted for opinion to the Attorney General of the United States. In 1911, Attorney General Wickersham rendered to the Secretary of the Treasury an exhaustive opinion in which he states that branch banking is not permissible under the federal statute, except as above set forth.

Our independent system of banks has flourished in spite of opposition and attacks from those who have favored the monarchical branch banking systems of continental Europe or the oligarchic branch banking system of Canada. Our banking system, unique and isolated as it is, has not been any freer from attack by Europeans and European sympathizers than has our Republican form of government. Yet both have grown and flourished together, with the result that today the banking power of the United States is far greater than that of Great Britain or any country of Europe. The banking power of Canada, so idealized by the proponents of the branch banking system, is exceedingly small when compared with that of the United States. In fact it is not as great as that of Massachusetts.

The branch banking system has been developed in various countries. The one most similar to ours is Canada. A study of the Canadian system will, therefore, furnish the most light on what branch banking would probably produce in this country.

CANADIAN BRANCH BANKING

Canada today has seventeen banks with four thousand eight hundred and thirty-one branches scattered throughout the various cities and villages of the country.

Each of these branches is managed by an agent or branch manager. It has no other officer and no local board of directors. It receives deposits and forwards the same to the head office, keeping only enough funds on hand for current needs. All loans in excess of nominal amounts must be submitted by the branch manager to the main office for rejection or approval and are there made or refused.

After our panic of 1893 and prior to the enactment of the Federal Reserve Act in 1913, the Canadian system had various advantages over our system, which were frequently advanced as strong reasons for instituting branch banking in this country. In 1893 there was no organized cooperation between the various banks in the United States. Each bank was required to maintain its separate reserves, which were deposited largely in the banks of the reserve and central reserve cities. When strained conditions demanded an expanded credit, the separate banks scattered over the country, in supposed self-protection, withdrew their reserves from the central banks and held them in selfish isolation in their own vaults. Instead of mobilization of the reserves of the country under a cooperative system, which would expand credit facilities, the country banks withdrew and piled up their separate reserves. The large banks, in order to protect themselves, were compelled to sacrifice their customers. Panicky conditions necessarily followed. Discount rates varied greatly in different parts of the United States. Our currency was inelastic. We had no large banks to finance great

enterprises. There was no machinery for compelling the banks of the country to act together in times of crisis.

These were real defects which needed to be remedied and many believed that the only remedy was the adoption of the branch banking system similar to that of Canada, Great Britain or Scotland. However, in spite of the evils which were apparent and real, the opposition to branch banking was so great that, even though it might lift this country out of its financial difficulties, it had no chance of adoption. The people of a generation ago were sufficiently farsighted and intelligent to see its serious defects. The best thought of our nation was devoted to our financial difficulties and wiser counsels prevailed. The result was that in 1913 the Federal Reserve Act was adopted to cure the vital defects in our national banking act. The Federal Reserve system has provided a scientific elastic currency. It has stood the extreme test of a world war. It has mobilized our reserves; tended to equalize interest rates and to distribute the financial resources of the country throughout the nation instead of centralizing them in one city.

THE FEDERAL RESERVE SYSTEM

Through the cooperative system of mobilizing reserves and the rediscounting facilities afforded to the member banks of the Federal Reserve System, it has not only eliminated the former great evil of the hoarding of individual reserves, but it has afforded a vast expansive system of credit on a scientific basis unknown to any other

banking system of the world. While in Canada the reserves are withdrawn from various branches and centralized at the home office, still, this mobilization of reserves is *in seventeen separate and distinct units*. The method of credit expansion open to each of these units is the privilege of note issue to the extent of their capital, and during the crop moving period an additional amount equal to fifteen per cent of their capital and reserve fund. Owing to their small capitalization in proportion to the volume of business transacted, Canadian banks in normal times have outstanding a large proportion of the notes authorized, leaving little room for expansion. Our currency expands or contracts according to the needs of business. The availability for expansion to any bank depends not upon its size, but upon the character of its assets. The note issues of Canadian banks are based merely upon their capital and not upon the demands of industry.

The branch bank system of expansion is a centralization of money power in a few hands; the American system is one of decentralization of money power, but with organization and mobilization of reserves available to all. The one is a system of centralization, the other is a method of cooperation. The one is a domination of money power by a few; the other is an organization of the resources of the many, uniting all independent banks into one cohesive whole.

Professor Laughlin, formerly Chairman of the National Monetary Commission, who had so much to do with the working

out of the Federal Reserve Act, stated two years prior to its adoption, "What we need is not centralization but cooperation entered into by all our institutions of credit to the end that we may avoid selfish isolation and create a federation in the interest of all the banks, small as well as great."

James B. Forgan, one of our most eminent bankers, who had at times delivered addresses in favor of branch banking, on November 22, 1911, in an address before the American Bankers Association at New Orleans discussed the plan which, with some changes, was afterwards embodied in the Federal Reserve Act. Mr. Forgan said, "The plan suggested will, therefore, afford our banks the principal advantages of the branch banking system without surrendering their individuality of ownership, their interest in local affairs or the local control of their business."

While there are many state banks not members of the Federal Reserve System, still, Mr. Willis, former Secretary of the Federal Reserve Board, estimated in 1921 that the membership of the Federal Reserve System represented about eighty per cent of the regular commercial banking assets of the country. Its facilities are available to the other sound banks whenever desired. The resources of the Federal Reserve Banks today amount to nearly five billion dollars, in itself considerably more than all the resources of all the banks in Canada combined. The reserve mobilization afforded through our Federal Reserve System is so far in excess in amount, so superior in its operation, and so much more universal in its applica-

tion than the system of Canadian branch banking that the former main argument of the branch banking advocates in this country has disappeared.

FORMER REASONS FOR BRANCH BANKING NOW GONE

Twenty years ago the defects of our system were real and apparent and the people of this country were actively seeking advantages which the branch banking system afforded. If at that time, they were so opposed to monopoly and the other attendant evils of branch banking that they would not accept that system, is it reasonable to suppose that they will adopt it now that the Federal Reserve Act has enlarged its benefits without its disadvantages?

Although, as noted, the vital defects in our independent banking system have been corrected by the Federal Reserve Act, yet the evils of branch banking remain and are as apparent as ever. The entire scheme is as foreign to our soil as is the seed of monarchy. It may be suited to those countries whose traditions proceed from kings or emperors, but it is not adapted to the needs of a people who live in a republic. Charles G. Dawes has well said that branch banking is wrong because it proceeds from the top down instead of from the bottom up.

EVILS OF BRANCH BANKING

Let us consider some of the evils which arise from branch banking:

First, it destroys the interest which each community takes in its own institutions. Any system is not successful in the highest

degree which does not take human nature into account. We all know that the people of a city, such as Rockford, Illinois, would have more pride in the Rockford National Bank owned by Rockford stockholders, managed by Rockford directors and conducted by Rockford officers, than they would have in an institution called the First National Bank of Chicago or the National City Bank of New York and managed merely by an agent or branch manager, who is frequently moved about from branch to branch. The independent local bank is owned, conducted and managed by men who have their homes in Rockford, who are part of its business and social life, and who spend the money which they make out of the institution in Rockford and with the Rockford merchants. People of the community are attached to the bank, not only by financial ties, but by ties of sentiment, local patriotism and neighborliness, which contribute much toward success even in business.

Second, the branch banking system takes away the benefit of having a bank under local control to build up local industries. The seventeen banks of Canada have their head offices in seven cities. Toronto has seven banks; Montreal, five; Hamilton, Winnipeg, Quebec, Weyburn and Halifax each one. All of the other hundreds of cities and villages of Canada have no local banks. There is no local bank west of Winnipeg. Think of cities such as Vancouver and Victoria, the largest Canadian cities on the Pacific coast, gateways of Canada to the far East and the Orient,

without a single local bank. In Vancouver there are forty-eight branches of banks whose headquarters are in Eastern cities. One sees in traveling about Vancouver signs of the Bank of Montreal, the bank of Toronto, but looks in vain for the Bank of Vancouver. Is it any wonder that Vancouver and Victoria are small in size when compared with our own western coast cities? Victoria has a population today of less than 39,000, and the population of Vancouver is approximately 120,000. Seattle in forty years has grown from 3,500 to more than 315,000; Portland, in the same period, has grown from 17,000 to 258,000. All these cities have substantially the same natural advantages. There may be other reasons for the much larger growth of Portland and Seattle, but undoubtedly one vital factor in their greater development is that they have a number of strong national and state banks. They have a corps of real financial leaders, independent, resourceful and devoted to the industrial progress of those cities. Does any one believe that Portland or Seattle would today be several times larger than Vancouver or Victoria if they had been dependent for their banking facilities upon branches of New York or Chicago banks?

LOCAL MEN UNDERSTAND LOCAL NEEDS

Local officers and directors understand the needs of a community more intimately and can act with greater promptness than an agent or a non-resident board of directors. The community is built up and developed by the making of discreet loans to pioneer enter-

prises and deserving business men and by giving them financial advice as well as credit. The board of directors of a local bank is made up of men who are intimately connected with the business life and personnel of the immediate neighborhood. They form their judgments from first-hand information and primary evidence. The members of the board of directors and officers of a large bank, miles away, are interested in their own respective enterprises. Their natural interest causes them to put the funds under their control into channels that either directly or indirectly promote their associated businesses. Even where this is perfectly legitimate, their natural preference is to place their money with men whom they know personally rather than to loan to those about whom they know nothing but from hearsay.

Human interest prompts the local board of directors to take care of local industries first. Actual and daily contact with the various borrowers and thorough knowledge of the needs of the community make the local board and officers competent to exercise judgment. They can afford to take chances in the matter of new enterprises that a long distance board of directors would not be justified in taking, because the latter does not have first-hand information as to the borrower, cannot fully appraise the situation or appreciate the chances of success of the enterprise. For a foreign board of directors adequately to pass upon the credits of merchants many miles away, whom they have never seen and with whose businesses

or environment they are not familiar, is about as satisfactory as teaching swimming by correspondence.

BRANCH BANKS MERELY DEPOSIT GATHERERS

Mr. Emory W. Clark, President of the First National Bank of Detroit, has recently written a widely published article advocating branch banking. Referring to conditions in Detroit, he says:

"The branch, as a rule, makes no loans. The branch manager of course has authority to make loans up to a certain limit (say \$500 to \$1,000) to his own customers, but all applications for loans above this limit go before the officers and directors of the bank. These 'branches' are, therefore, in practice nothing more than offices for the receipt of deposits."

The result, under the branch banking system, is that local loans are frequently refused where they should be made. Local enterprises do not receive the financial credit which they must have. The entire community suffers and the city and surrounding country do not develop as they should. Nothing illustrates this better than the retarded growth of the western cities and cities in the maritime provinces of Canada. Her natural riches are extensive. She has a great and resourceful people. And yet most of her cities and towns are farming and fishing centers. There is a noticeable lack of factories and other industrial enterprises outside of her few banking centers. The financial resources of her outlying districts, cities and villages

are tapped and brought to a central reservoir, with the result that the cities of Montreal and Toronto profit at their expense.

Mr. William Long Baker, formerly Supervisor of branches of the Standard Bank of Canada, in a recent writing said:

“Canada is not overbanked. It is underbanked. It has too many deposit gathering offices and not enough real service stations.”

Third, branch banking causes a great economic waste. One of the principal arguments made by the proponents of branch banking is that it effects economies in operation. They show how local boards of directors are eliminated and a single agent or assistant agent is substituted for the regular officers of a bank. They say that salaries paid to agents, managers and clerks are small compared with the salaries of our banking officers and employes. Although this may be financially profitable to the non-resident stockholders, nevertheless, it causes great loss to the community.

The greatest resources that any city has are its human resources of its able men. Volumes could be written upon the service performed by the local banker of the independent bank in promoting the interests of the local community. He is the inspiration of nearly every enterprise. The business man embarking on a new venture does not proceed without consulting him. By reason of his ability, developed through large experience, he is able to form accurate judgments. This experience is assisted by the ready advice of his board of directors. No small salaried clerk, manager or agent

of a non-resident institution could serve the purpose. The foreign officers or board of directors have no inclination nor long distance ability adequately to advise or assist the local merchant or manufacturer.

During the late war a national crisis demanded the raising of vast sums of money. This required the creation of an intelligent public opinion and a united financial effort. The organization of that public opinion in connection with the sale of bonds throughout the country fell largely upon the bankers. They were the natural financial guides of the public in each community. In time of crisis their local leadership, organized on a national scale, was a firm support for the nation. In time of peace, through their wise counsel and advice, they have been potent factors in the creation and development of the business enterprises of their respective communities. They have made possible the success of many thousands of business men. Branch banking would supplant these men of constructive ability in their various communities with mere clerks, trained only to execute the orders of their superiors.

Fourth, branch banking is monopolistic and would ultimately destroy the independent bank system. It has been denied by those in favor of branch banking that such would be the effect. However, this has been the effect wherever the two systems have been tried together. In April, 1902, one of our most eminent bankers made a speech at Milwaukee, Wisconsin, in favor of branch banking. He claimed that it did not mean monopoly and in substantiation of

his contention named the following local banks in Canada which existed and prospered beside and in competition with branch banks in their respective communities. The banks mentioned were St. Stephen's Bank of St. Stephen; Merchants Bank of Prince Edward Island; People's Bank at Fredericton, New Brunswick; Local Bank at Yarmouth, Nova Scotia; Commercial Bank at Windsor, Nova Scotia; the Bank of New Brunswick, St. John, New Brunswick. *Twenty years have since passed and every one of the banks mentioned has passed out of existence.*

What branch banking does to the independent bank is demonstrated by the steady decrease of banks in Canada and England. The Canadian Year Books show a steady decline of the number of banks in Canada, until in 1904 she had only 35 banks. Today she has only 17, a decrease of over 100% in 18 years. The Encyclopedia Britannica, 1910 and 1922 editions, show that England in 1842 had 429 banks, in 1900, 111, and in 1921, 41, less than one-tenth the number that were in existence eighty years ago.

The Statistical Year Book of Canada, 1902, shows that twenty years ago the maritime provinces of Canada had eleven banks. The mania for absorption of the small bank by the large one has today left only one institution, the Bank of Nova Scotia, with its general manager's office in Toronto.

The only answer to this deplorable condition, by those who favor branch banking, is that it is a case of the survivor of the fittest. But in the realm of finance, the fittest does not necessarily survive. One

of the well recognized rules relating to money is Gresham's law, known to every banker and economist, to the effect that where good money and bad money circulate side by side, the bad money eventually drives the good money out of circulation. Good money cannot exist alongside of bad money. The fittest money does not survive, nor does the fittest among banks necessarily survive. *It is a survival of the strongest made strong by artificially created conditions.*

WHY BRANCH BANKS THRIVE

The branch bank is a formidable competitor, for one reason, because it does not have to pay taxes upon its capital stock in the province or county where the bank is located. No capital stock taxes are paid except by the parent bank at the home office. The local independent bank is required to pay local taxes, not only upon its office building, but upon its full capital stock. It also must have a certain amount of capital with which to do business, whereas, the branch bank can be started without the parent bank enlarging its capital. The branch bank, with the help of its mature parent, has the advantage of attacking the small independent bank in its infancy. It has the advantage of using the monopolistic weapon of competition for a period of time at a loss until the competitor is driven out of business. Under our system the independent bank does not locate in a community before it is ready for banking, as it cannot exist unless the community can support it. The branch bank, supported by the parent institution, can come into

a community long before it is ripe, preempt the choice locations and do business at a loss for a period of time until the community has grown up to it. It can do this because it is living in the meantime on the parent institution. The loss is made up later when all chance of competition from local institutions has been killed and the branch banks have the field to themselves. It has often been urged as one of the advantages of branch banking that a branch can be located in a new community and furnish banking facilities before an independent bank can afford to do so. That is probably true, and it may be a temporary benefit, but the ultimate result is not healthful. It is a temporary benefit to a community to have a price war in some line of business until the large concern has driven the independent dealers out of business, but no one will contend that such temporary benefit is a permanent advantage.

Furthermore, the large bank is in a position to say to the small one, "Sell out to us or we will open a branch across the street and with our imposing list of directors and large statement of resources, we will attract the savings depositors—the profitable trade—and drive you out of business."

The stock of a bank often has an indirect value to certain groups far in excess of its actual investment value because its control affords the opportunity to unload securities and make loans. These groups can afford to make so attractive an offer to the stockholders of the small bank as to insure the purchase of the bank. Such an absorption transferring control of large resources from

local officers and directors for the use of distant interests may be beneficial to the non-resident stockholders, but it is not to the advantage of the community in which the bank is located.

GROWTH OF BRANCH BANKS IN U. S.

An example of what would undoubtedly happen in our country is found in the record of what has happened where branch banking has been permitted.

In the City of Los Angeles branch banks are scattered around the city extensively. According to Rand, McNally's Bankers' Directory of July 1922, the Bank of California has twenty-six branches in Los Angeles. In Cleveland, a city of 796,000, the Cleveland Trust Company has forty-eight branches and is extending them through the state, four having been located in towns outside of Cleveland. In the city of Detroit it shows that there are one hundred and ninety-one banking places, of which only twenty are chartered banks and one hundred and seventy-one are branches. In California branches have been extended into many towns throughout the entire state, as well as in other states.

In his recent letter to Senator McCormick, Mr. Crissinger, Comptroller of the Currency, argues that national banks should be permitted to have branches where state banks are given the same permission on the ground that independent banks without branches cannot survive where branch banking is permitted. He speaks of the competition of state banks that have literally taken possession of cities with

branch banks or offices and says that "these facts are notorious and well known to all the state bankers of the country". He calls attention to the growth of branches in Detroit, Cleveland, Los Angeles and other places, and states that the same conditions prevail in the City of New York where the Corn Exchange Bank and several other state institutions "are literally plastering that city with branches". He then draws the inevitable conclusion that ***independent unit banks cannot long survive in any state or community where branch banking is permitted.***

Most of the advocates of branch banking freely admit that the system means the elimination of the small bank and the concentration of banking power in the hands of the large banks. Their arguments are based upon the benefits of such a concentrated system. They proceed upon the assumption and inevitable fact that branch banking means the passing of the smaller banks.

WASTEFUL COMPETITION OF LARGE BANKS

The proponents of the system say that there is competition even in branch banking. While this is true, it is not a healthful competition. It is a competition only of large and powerful banks fighting over the spoils. There is no competition between large and small banks. The competition of Canadian banks is not free for all. It is a "war of the barons," and in ways it is wasteful and extravagant. In their attempts to outdo each other, the Canadian banks have established branches in some of the large cities of Canada

so extensively that they are out of all proportion to the needs of the community. The Canadian Almanac for 1922, shows that Toronto, with about one-fifth the population of Chicago, has 238 branches, over 25% more than there are banks in this city. Imagine Chicago with over six times the number of banking institutions which it now has and you will have a picture of Toronto. In Montreal practically the same condition exists. As a result of this competition the banks of Canada have fifty per cent of their capital tied up in bank buildings and equipment. This is not a healthy condition.

DANGER OF LIMITED BRANCH BANKING

In his recent article favoring branch banking, Mr. Clark, President of the First National Bank of Detroit, asserts that the situation in Canada is not comparable to that in this country, because here the practice of establishing branches would be more limited. He says that it might even be restricted to the municipality in which the principal office of the bank is located, as under the present state law in Michigan. After speaking of the Canadian system, he admits that the evils resulting from centralization of financial power and credit would give cause for alarm, but suggests relief in the fact that they want only half a loaf and not a whole loaf at this time.

But when the very difficult task is accomplished of getting their foot in the door, it will be much easier to force it wide open. A striking example of this was seen in New Jersey in 1913, when a law was passed authorizing branch banking within county

lines. Inspired by their easy success, the branch banking advocates *at the very next session of the legislature* made a desperate and almost successful attempt to extend branches all over the state. When finally aroused to what it all really meant, the independent banks succeeded in preventing branch banking altogether.

The fact that the death of the independent banks of this country would be gradual or by degrees—eliminating them from the cities first—does not afford much consolation. It is not any easier to take because it comes in homeopathic doses at first.

BRANCH BANKING DOES NOT AFFORD MORE UNIFORM INTEREST RATES

We have frequently noticed the statement in various arguments favoring branch banking that the Canadian system of taking money out of one community and spending it in another is of great benefit in making the interest rates more uniform throughout the various sections of the country. Economically, there should be some variation in the rates in the different districts of each country, and the rates in Canada and here in the different sections vary in about the same proportion and in each instance in accordance with natural and well known economic laws. According to the bulletin of August 31st of the Seventh Federal Reserve District, the ruling rate on commercial loans in cities outside of the largest centers was 6%, with 7% reported in some cases. In most of the country districts it ran from 7% to 8%, with some loans as low as 6%. The customary discount rate in Chicago for

ninety day securities was from 5% to 5½%. At the same time the prevailing rate for call loans in Toronto was from 5½% to 6%, in Montreal from 6% to 6½%, and in the western country districts the prevailing rates were from 7% to 8%. It will thus be seen that the variation in the two countries is substantially the same.

OUR CLEARANCE SYSTEM SUPERIOR

An argument formerly advanced in favor of the Canadian system is the facility for collection and exchange afforded by the branch bank system. A man in Quebec could deposit checks received from his customers in Vancouver, Montreal, Toronto, Saskatoon and other cities. These checks would be collected by his bank through its branches in those cities. In this respect the Canadian system was, several years ago, superior to our unorganized and isolated unit system. Since July 1st, 1916, however, when the order from the Federal Reserve Board put its clearance system into effect on a national basis, we have had a method of collection and clearance just as effective and more universal than that afforded through the seventeen Canadian divisions. A man in business in Chicago today can deposit his checks received from customers all over the country in his own bank and have them collected and credited to his account with fully as much facility as the man in Montreal.

NO ADDITIONAL CAPITAL FOR BRANCHES

A principle that has always been a fundamental requirement in our banking system has been that each bank should have

sufficient capital to insure reasonable safety. The protection to depositors arises not only from the capital invested, but also from the stockholders' liability. The most fundamental prudence requires that as the size of the bank increases its capital should be correspondingly greater. The branch banking system utterly ignores this fundamental and universal rule of safety. When a new independent bank is organized, its capital and surplus must be immediately paid in in accordance with the size of the community. This is a fundamental requirement and a necessary precaution. But when a new branch of an existing bank is opened, although the business of the branch may be fully as large as that of a new bank, no additional capital is required, and as the system or chain of branches is extended and grows without additional capital, just to that extent does the security and safety to that bank's depositors diminish.

In 1904 the total paid up capital of all the banks in Canada was \$79,000,000.00. The total assets of all the banks was \$694,000,000.00. The total capital of the banks amounted to 11% of their assets. On January 31, 1920, the total paid up capital of the banks was \$128,460,000.00; total assets \$2,926,867,000.00. The paid up capital amounted to about 4% of the total assets of the banks. In other words, as the branches of the Canadian banks have been extended without corresponding increase in capital, the proportion of capital security has decreased until it is today approximately one-third of what it was in 1904.

It may be said that the Canadian banks have increased their reserve funds in greater proportion than their capital. Even considering the capital and reserves together, still, the proportion of capital and reserves to the total assets is materially less. But the reserve funds of a bank may be depleted at any time, and no additional stockholders' liability attaches thereto. In considering the safety to depositors, therefore, the capital of a bank must be the primary consideration. To permit the expansion and increase of banking power of large institutions through branches, with only the capital of the parent bank, is contrary to the recognized rules of safety and experience.

DOES NOT LESSEN PANICS

It has frequently been stated that the branch banking system in supplanting the many banks of the country with a few large institutions will lessen the danger of panics. But how utterly unreasonable and contrary to our own experience that statement is! Have many of you ever heard of a panic occasioned by the failure of a small country bank? It is the failure of large institutions with their varied interests scattered throughout the country that causes widespread disaster and calamity. The few small banks that have failed in recent years in our own city did not cause any great financial uneasiness throughout the city. They have merely called attention to the evil of private banks and loose and inefficient supervision. The failures of some of our large banks, that would naturally have extended their influence by branches throughout the com-

munity, and, possibly, the country, have created far more concern and uneasiness in financial circles than have the scattered failures of small banks.

Most of the small bank failures have been those of private institutions or banks where the external supervision was extremely lax. Private banks are now being legislated out of existence and with the increased and more intensive supervision and direction afforded by governmental examination, and through the extension of federal reserve and clearing house systems of examination and supervision, the dangers of loose banking have been largely removed.

DOES NOT PREVENT FAILURES

Branch banking does not prevent bank failures. In the last eighteen years, six out of thirty-five banks in Canada have failed and two of them were big banks with many branches. The Ontario Bank of Canada had twenty-four branches and the Sovereign Bank of Canada had forty-three branches.

Nearly all bank failures are caused by departure from the customary sound rules of banking with the lure of additional profit as the motive. Experience has proven that mere size does not cure the disease of avarice. A wise and farseeing leadership in this country has sought the remedy through greater organization, supervision and direction of all banks, both large and small, rather than through the destruction of the small bank.

NOT NEEDED FOR MERE SIZE

One of the principal arguments urged in favor of the branch banking system is that it creates banks large enough to develop great business enterprises. This argument had more of merit a quarter of a century ago than today. Our biggest banks under the present system are as large, and, in some instances, larger, than any of the banks of Canada and are approaching in size the gigantic joint stock banks of London. The immense size of the English banks is due not to natural growth but to recent amalgamations and consolidations. January 1st, 1914, there was not a joint stock bank in all England that had deposits or capital and surplus as large as the present deposits or capital and surplus of the National City Bank of New York. But during the war and since that time, by merging with other large institutions, these banks have trebled and quadrupled in size. If mere size is all that is desired, there is nothing to prevent our large banks even under the independent system from amalgamating just as the English banks have done.

It will be noticed that, throughout the world, the size of the banks as a general rule is governed to a large extent by the size of the city in which they are located. It is but natural that London, the financial center and largest city of the globe, with a population of 7,500,000, three times that of Chicago, and nearly half again as large as that of New York, should have the largest banks in the world, regardless of whether the independent or branch banking system prevailed in England. However, the differ-

ence in size between our banks and the banks of England is of little consequence, because our banking resources as a whole are much greater than those of England.

DEAL WITH DIFFERENT BANKS

Very few of our large industries do all their banking with one bank. With offices spread all over the country, their funds are kept in different banking institutions which are able to render all the financial assistance required. This method is not only more convenient from the standpoint of the industries themselves, but also from that of the banks and public at large. It is not particularly desirable that a large industry should borrow all of its requirements from one bank. Insurance companies in taking a large risk re-insure with other companies. The same principle is equally desirable in banking. The large credit risks should not be assumed by one institution, but should be properly apportioned. Our banking institutions, when they were very much smaller than they are today, were sufficient to develop industries such as Standard Oil Company, International Harvester Company, the large packing companies, etc., which are the greatest in the world. Trade and industry are not suffering in this country today because of the small size of our banks and if the economic necessity arises, self interest will prompt consolidation sufficient to meet the need without the destruction of the independent banks. It is far better for our people as a whole to have financial resources distributed, than to have a few instances of abnormal

growth at the expense of the entire country outside of the cities benefited.

LOCAL BANKER A BUSINESS BUILDER

Thousands of great industrial enterprises of today have grown from small beginnings. Years ago some man of ability needed money to start or to develop his business. Had he submitted his financial statement through a branch manager to a distant bank, it would scarcely have been considered. But some banker in his own town knew him personally. He knew him, not as a man of means, but as a man of force, ability and character. Approved banking securities were impossible, but he had confidence in the man and trusted him. The result was the growth of an industry, the employment of labor, the success of a business man and the development of a community.

Every broad gauged constructive banker has had just such experiences in his own business life. He has caused "blades of grass to grow where none grew before". He has been a great constructive force in the community. Thousands of factories and industrial enterprises are scattered all over our country today as monuments to the vital part he has played in the economic development of the nation.

PRIMARY DUTY OF A BANK

After all, *the fundamental function of a bank is to accumulate the money of the community as deposits, and then place it for commercial development in the hands of those most able to use it for that purpose.* Who are the persons to be thus intrusted

with the further business development of this country? The branch banking system says that it shall be those who can transmit on paper through a branch manager the best financial statement. The independent banking system says that while that is a factor, still it will also consider the energy, ability and character of men personally known to and relied upon by the banker. It does not close the avenue of business to the ambitious and deserving man who has not already made his stake as a basis for future credit. The one system tends constantly toward the greater concentration of wealth and of power; the other is an influence toward its greater distribution. The one is an oligarchy of caste; the other is a system of opportunity. The one is stagnant and dead; the other is a moving human system of progress and of life.

MEANS CONCENTRATION OF ALL BUSINESS

The concentration of financial power in a few hands means much more than merely that. It means an even greater concentration of all business and industry to which that system gives financial life. The control of great financial resources in a few banks, with their associated insurance companies, trust companies, securities and investment companies, even today means control of railroads, mines, steel mills and other industries. The financial strength and support back of these enterprises means further concentration of resources all along the line in their respective industrial and commercial fields in the hands of a few allied groups in the large cities.

Furthermore, in a democracy money power always has and will carry with it corresponding political power which is reflected in legislation, executive acts, and frequently even in judicial circles. Already forty-six per cent of the nation's money and credits is in the hands of one per cent of the banks. The inauguration of a system which has always and everywhere meant and must inevitably mean the destruction of independent banks in the various communities throughout the country, and an oligarchical concentration of financial, industrial and political power would strike at the very heart of our future welfare.

NO CAUSE FOR CHANGE

We have today the best banking system that has yet been developed. We have less reason to discard it for the branch banking system now than ever before. Our banking power is the greatest known. We have more independent and resourceful banking brains, extensively located at points of commercial vantage throughout the country, than any other nation. Banking resources are more available to the average citizen than to the people of any other country. Prosperity is more universally and widely diffused than in any other government. Let us not at this most fateful hour discard so vital a factor in the prosperity and greatness of our nation.

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